

# Idaho Economic Forecast

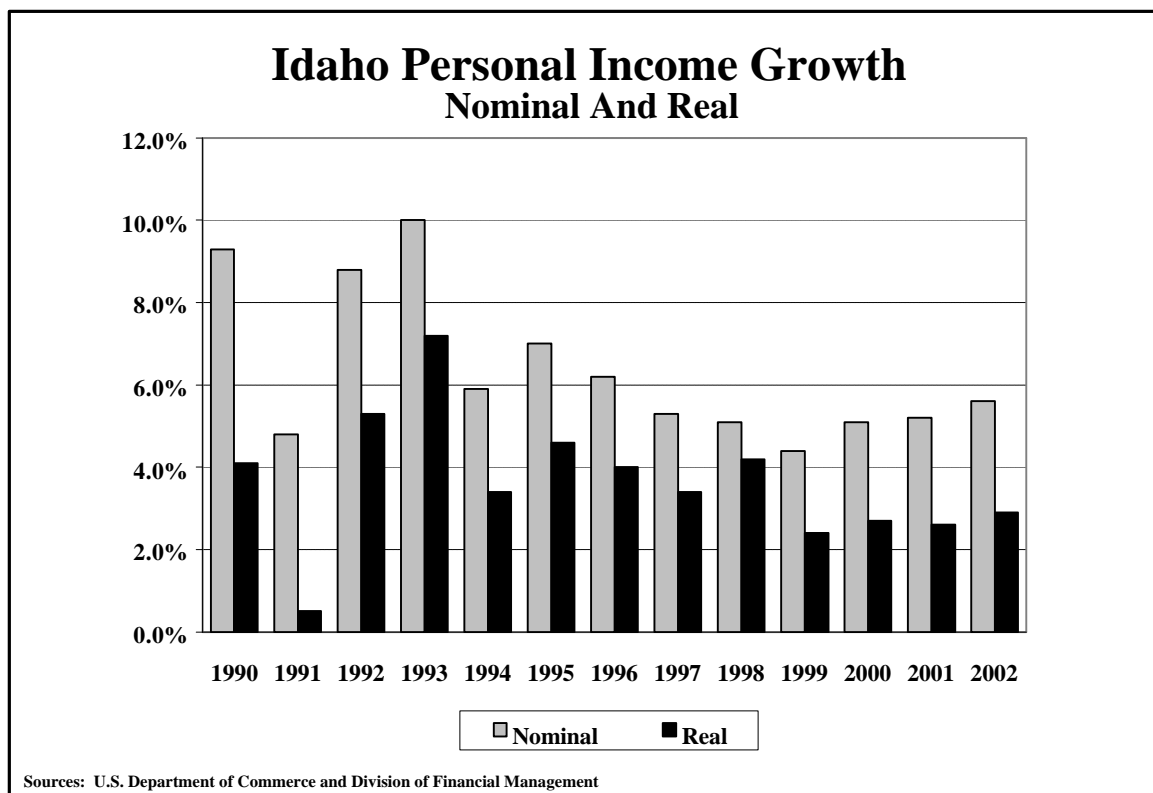
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- Forecast 1998-2002
- Responding to Asia's Crises
- Alternative Forecasts



**Idaho  
Economic  
Forecast  
1998 - 2002**

State of Idaho  
Dirk Kempthorne  
Governor

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## PREFACE

Idaho has entered its second century of statehood on solid economic ground. After nearly a decade of stop and start economic performance, the 1980s closed with a much-welcomed economic expansion. While not as sharp as the boom years of the 1970s, today's employment and income growth are exceptional in comparison to the 1980s. Much of the current expansion results from Idaho's successful adjustment (and sometimes painful restructuring) of its key basic industries.

Our traditional industries, such as lumber and wood products, food processing, and mining, have become more competitive. Our high-tech sector, which includes Hewlett-Packard, Zilog, and Micron Technology, has bucked recent national trends and undergone substantial expansion. In addition, the tourism and travel sectors have benefited from past investments in such projects as the Coeur d'Alene Resort, the convention centers in Boise and Nampa, and the Kellogg Gondola. Thus, the restructured Idaho economy is better positioned to exploit growth opportunities that will arise this decade, and is expected to sustain solid growth well through the 1990s.

A particularly satisfying aspect of the Gem State's passage into the 1990s is the broad base of economic health in Idaho today. Tourism, high-tech manufacturing, and the commercial sectors are thriving. After persevering through hard times, Idahoans are enjoying the benefits of the state's economic success on a wide geographical basis. Many of Idaho's rural communities that lagged urban growth rates during the 1980s have grown recently. Almost two-thirds of Idaho cities lost population during the previous decade. Many are now rebounding.

While many changes are taking place today, other traditional factors still hold firm. Most notably, Idaho's economy remains directly tied to its resource base. While displaying more resilience to downturns than in the past, these industries are not totally immune from business cycle effects. This heavy dependency on natural resources will bring a host of challenges as Idaho enters the next century. These include competition among agriculture, fisheries, and expanding population needs for water and energy; the environmental impacts of the economically important mining, timber, agricultural, and tourism industries; and the many other pressures of an expanding population on the state's natural and fiscal resources.

Other factors that are external to the state's economy will present challenges this decade to public and private decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory near Idaho Falls and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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## TABLE OF CONTENTS

Preface.....	iii
Introduction.....	2
Executive Summary .....	5
Idaho and U.S. Forecast Summary Tables.....	6
Forecast Description:	
National .....	8
Idaho.....	14
Forecasts Comparison.....	20
Alternative Forecasts.....	22
Feature Article	
Responding to Asia's Crises .....	25
Forecast Detail.....	29
Annual Forecast .....	30
Quarterly Forecast.....	44
Appendix.....	59
DRI U.S. Macroeconomic Model.....	60
Idaho Economic Model.....	62
Equations.....	64
Endogenous Variables.....	68
Exogenous Variables.....	70

## INTRODUCTION

The national forecast presented in this publication is the November 1998 Standard and Poor's DRI baseline forecast of the U.S. economy. The October 1998 *Idaho Economic Forecast* was based on the September 1998 DRI national forecast.

The historical and forecasted growth rates for Idaho nominal personal income and real personal income are shown in the cover chart of this *Idaho Economic Forecast*. The most notable feature of this graphic is the significant slowing of income growth compared to earlier years of the 1990s. In three of the six years from 1990 to 1995, Idaho nominal personal income grew by 8.0% or more. In contrast, this measure has grown faster than 6.0% annually in only one year (1996) since then. It is not expected to rise above this level through the forecast horizon. Real personal income displays a similar pattern. It grows faster than 4.0% in 1998, but is expected to drop below that pace in the remaining years of the forecast. It grew faster than 4.0% in the four years from 1990 to 1995.

## FEATURE

"Responding to Asia's Crises" is the title of this issue's feature article. It is a natural sequel to the Ramon Moreno article entitled "What Caused East Asia's Financial Crises" that was reprinted in the October 1998 *Idaho Economic Forecast*. More than a year after the financial crises broke out in Asia, the world still waits for signs of a sustained recovery in this region. In this article, Mr. Moreno attempts to identify reasons why the Asian recovery has been so sluggish and why finding the appropriate economic policy for solving the crisis is not straightforward. Mr. Moreno is a Senior Economist with the Federal Reserve Bank of San Francisco.

## THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. DRI examines the effects of different economic scenarios, including the potential impacts of international recessions; higher inflation; and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are described in the text.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1983 to 2002 and for every quarter from 1996 through 2001. The solution of the Idaho Economic Model for this forecast begins with the third quarter of 1998.

Descriptions of the DRI U.S. Macroeconomic Model and the Idaho Economic Model are provided in the Appendix. Equations of the Idaho Economic Model and variable definitions are listed in the last pages of this publication.

## CHANGES

The employment numbers that appear in this publication are based on monthly data supplied by the Idaho Department of Labor. These data extend through the third quarter of 1998. The estimates for all of the months in the first half of 1998 are benchmarked, while the monthly estimates for the third quarter are preliminary. All the monthly data have been seasonally adjusted and converted into quarterly estimates by

DFM. The benchmarked data suggest that total nonfarm employment in the second quarter of 1998 was about 4,400 higher than was reported in October 1998. And the preliminary third quarter data for 1998 show employment was about 4,100 higher the amount previously forecasted.

The tables in this forecast include the U.S. Department of Commerce's Bureau of Economic Analysis' (BEA) estimates of Idaho quarterly personal income through the second quarter of 1998. The BEA is scheduled to release the next round of Idaho personal income estimates in late January 1999. These estimates will run through the third quarter of 1998.

The *Idaho Economic Forecast* is available on the Internet at <http://www.state.id.us/dfm/econinfo.htm>. Readers with any questions should contact Derek Santos at (208) 334-3900 or at [dsantos@dfm.state.id.us](mailto:dsantos@dfm.state.id.us).



## SUBSCRIPTIONS

You can access the *Idaho Economic Forecast* for free at <http://www2.state.id.us/dfm/econinfo.htm>.

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